
EXECUTIVE SUMMARY



THIS PAGE INTENTIONALLY LEFT BLANK



GALLATIN COUNTY

311 West Main, Rm. 306 • Bozeman, MT 59715

County Commission

Joe P. Skinner
William A. Murdock
Stephen White

Phone (406) 582-3000
FAX (406) 582-3003

Budget Message

August 29, 2007

Residents of Gallatin County:

This document is the Final Operating and Capital Projects Budget for Gallatin County, Montana for the fiscal year ending June 30, 2008 (FY 08). A brief summary of the Final Budget follows.

Overview of Budgeted Resources

The following table depicts the projected beginning balances, estimated revenues, Final budgeted expenditures, and projected ending balances for the budget year. All funds of the county are included in the following budget. The table reflects revenues estimated at \$64 million, budgeted expenditures of \$96 million, resulting in a decrease in the ending balances of \$33 million. An explanation of the significant changes in fund and cash balances (those greater than 10%) is provided on the following page.

Projected Changes in Fund Balances or Cash Balances Final Budget -- July 1, 2007 through June 30, 2008 (FY 08)							
	GOVERNMENTAL FUNDS				PROPEITARY FUNDS	FIDUCIARY FUNDS	TOTAL
	General	Special Revenue	Debt Service	Capital Projects	Enterprise & Internal Funds	Trust & Agency	ALL FUNDS
Beginning Fund Balance (Cash)	\$ 3,636,071	\$ 14,662,722	\$ 1,440,078	\$ 9,121,498	\$ 10,471,033	\$ 3,206,109	\$ 42,537,511
Estimated Revenues	7,849,787	23,480,926	2,320,362	5,533,024	15,140,909	9,351,809	63,676,817
less Approved Budget	(10,385,858)	(35,542,318)	(3,580,440)	(14,354,522)	(20,410,841)	(12,369,822)	(96,643,801)
Projected Changes to Fund Balance (Cash)	(2,536,071)	(12,061,392)	(1,260,078)	(8,821,498)	(5,269,933)	(3,018,013)	(32,966,985)
Estimated Ending Fund Balance (Cash)	\$ 1,100,000	\$ 2,601,330	\$ 180,000	\$ 300,000	\$ 5,201,100	\$ 188,097	\$ 9,570,527

Listed below are explanations for significant changes in fund balance/cash, for each of the major fund groups. Two factors account for a significant portion of reduction in fund balances. 1) The county utilizes conservative revenue estimates and thus actual revenues always exceed projected revenues. 2) The approved budget represents the maximum spending limits for county departments. Departments routinely under expend their budgets, which serves to increase ending fund balances.

General Fund

- The General Fund will use \$2,536,071 in working capital. These funds will be used to pay for the following items:
 - \$302,551 in capital outlay;
 - \$440,182 in Misc. expenses including contingency;
 - \$492,000 for new chief civil deputy, wage parity for Deputy County Attorneys and support for criminal/civil prosecution activities;
 - \$120,309 funding for new accountant in Accounting and Auditor and support for activity;
 - Court Services Re-Entry \$327,000; and,
 - Administrative Services (Administrator, Compliance, Finance, Grants, GIS, and Human Resources) \$453,225.
- There are a number of one-time expenses within the general fund that account for the balance of working capital utilization. Despite the reduction in general fund balance, the budget remains structurally balanced and does not pose a problem for future years.

Special Revenue Funds

- Special Revenue Funds of \$12.1 million will be used. Rural Improvement District road improvement are \$3.9 million, road, bridge, gas tax projects and capital uses \$2.1 million, with Road Impact Fee using \$1.2 million, PILT payments for loans etc \$1.9 million, Public Safety Capital \$0.9 million with an additional \$0.4 in capital designated for the new dispatch center/equipment. Records preservation uses \$0.8 of working capital, Open space accounts for \$0.4 million with the balance of working capital used by all other special revenue funds, especially Grants.

Debt Service Funds

- Debt Service Funds collect tax revenues in the Previous Fiscal Year for payment in the next Fiscal Year prior to the next tax collection. This is required to make bond payments pursuant to bond agreements. The actual amount of \$1.2 Million is similar to FY 06 and FY 07.

Capital Project Funds

- Capital Projects will use \$8.8 million for ongoing construction projects. \$4.8 Million will fund capital projects for the Road Shop, Remodel of Courthouse Annex, New Dispatch Center and New Detention Center with \$3.8 Million used for Open Lands acquisition using bond principal.

Enterprise / Internal Service Funds

- The \$5,269,933 decrease to Enterprise Funds/Internal Service Funds will pay for building repairs at the Rest Home, New cell at the Landfill and capping of existing cells at the Landfill, if needed, and the West Yellowstone Refuse District Compost Facility loan set aside requirements. Internal Service working capital will be used to fund Health Insurance costs, replacement of copiers and motor pool vehicles per replacement schedules and payment of deductibles, if needed, from Liability Fund.

Trust and Agency Funds

- Trust and Agency funds are projected to decrease by \$3.1 million. The decrease comes primarily from fire districts / service areas and special districts budgeting money for replacement or enhancement of their systems. A portion of this money includes using Impact Fees received in prior years.

Planning Processes

Gallatin County conducts various planning processes, both long-term and short-term, to help guide the government and to insure that decisions are made in the context of the organization as a whole and with a long-term perspective. Four of our plans (the Strategic Plan, Growth Policy, 5-year Financial Plan, and Capital Improvement Plan) are discussed below.

Strategic Plan

Strategic planning suggests ways (strategies) to identify and to move toward desired future states. It consists of the process of developing and implementing plans to reach goals and objectives. Within government, strategic planning provides guidance for organizational management similar to that for business, but also provides guidance for the evolution or modification of public policy and laws. Areas of such public policy include: funding of infrastructure and rate-setting, and functional plans such as the County's Comprehensive Plan for land use, the Bozeman Transportation Plan, the Belgrade Transportation plan and the County Transportation plan and Solid Waste plan.

The fiscal year 2008 budget continues our Strategic Planning initiatives started in FY 2000. The Strategic Plan is an ongoing dynamic process that gives residents, taxpayers and interested persons a greater understanding of county government. The strategic plan focuses on performance. It provides for measurable goals and objectives the County intends to achieve. Department employees will be held accountable for the implementation and success of the plan.

As part of the Strategic Planning Process, the county created a set of strategies to help guide the organization. These range from philosophical strategies (Mission Statement) down to concrete achievable goals for the coming year. Shown on the following page are the results of this planning process.

GALLATIN COUNTY Strategic Direction

Mission Statement

Provide cost effective services, visionary leadership and responsive policies for our diverse residents

Vision Statement

Gallatin County is dedicated to being a premier county local government.

Long-Term & Short-Term Goals

The county created a set of short-term and long term goals. Short-term goals are those that guide the development of the budget for the coming year. Long-term goals are more far-reaching in nature and do not change from year to year. Listed below are the long-term and short-term goals of the county that help guide the development of this budget.

Long-Term Goals (Concerns & Issues)

- Equate community needs with budgetary decisions
- Adhere to the long-term plans
- Demonstrate exceptional Customer Service
- Serve as a Model for Excellence in Government
- Improve Communication within county government, other jurisdictions, and our public
- To be an Employer of Choice and Improve Employee Retention

Short-Term Goals (Priorities and Policy Issues for the Budget Year)

- Maintain public health, safety and welfare as a high priority, as required and allowed under state statute and documented public demand, consistent with performance measurements;
- Improve and enhance the efficiency, effectiveness and productivity of every County Function through budget administration and performance management;
- Continue to improve Criminal Justice System including pursuit of a new Detention Center;
- Improve and maintain County Infrastructure by dedicating new property tax revenues resulting from new construction to Capital Projects;
- Ensure that needed transportation infrastructure systems are maintained and enhanced;
- Keep budget structurally balanced by maintaining current operation reserve percentages;
- Demonstrate a strong Commitment to Employee Retention through funding of needed wage and / or benefit;
- Improve management, accountability and oversight to reduce county risk; and,
- Exhibit commitment to Implementing Growth Policy.

In the Departmental Budget Section of this document, departments have stated how they plan to meet the Commission's long-term goals. In response to the Commission's short-term goals, departments have developed and are continuing to develop performance measures to identify and track quantitative and qualitative measures of their service delivery performance. Performance budgets emphasize the accomplishment of program objectives. Performance budgeting involves a shift away from inputs (what is going to be purchased), to outcomes (what is going to be accomplished). The change to Performance Budgeting is an ongoing process that continues in FY 08, with incremental changes by departments. The process will be emphasized during FY 09 with special attention to the difference between 'Workload Indicators' and 'Performance Measurements' being explained.

Gallatin County Growth Policy

The County Planning Department is the Primary department responsible for assisting the Board of County Commissioners in designing and implementing the policies called for in the 2003 Growth Policy. The County adopted the Growth Policy to provide broad instructions on how to best manage growth and development in the County, consistent with state law.

In 2006, the Commission, with the support of the Planning Department, began to craft more specific policies for implementing the Growth Policy. These specific policies include:

- (i) Identifying locations in the County that are appropriate and best suited for accepting new growth;
- (ii) Creating a purchase or transfer of development rights/credit program;
- (iii) Creating provisions for cluster development in the rural areas of the County; and
- (iv) Creating an incentive program for directing growth into areas deemed compatible for higher density.

During FY 08, the County Commission, with support from the Planning Department, will continue to investigate the value of the various strategies. As part of this continued investigation, the County Commission will hold public meetings throughout the summer and into early fall. A final decision regarding the various strategies may occur sometime late fall or winter.

Five-Year Financial Plan

Each year Gallatin County evaluates its current financial condition within the context of existing programs, assesses future financial capacity, and integrates County Commission goals, objectives, and financial policy into its decision-making process. Analysis of the County's financial and economic trends is an integral part of this process.

The Finance Office performs financial trend analysis each year in conjunction with the annual mid-year budget analysis. The Five-Year Financial Plan utilizes budgetary and financial information to create a series of local government indicators to monitor changes in Gallatin County's financial condition. These indicators, when considered as a whole, help interested stakeholders gain a better understanding of the County's overall financial condition. This analysis of key financial trends and other community factors is similar to the approach taken by credit rating agencies to determine Gallatin County's bond rating.

Using this trend analysis and the framework of the financial policies adopted by the County Commission, management is able to strategically plan and budget, provide solutions to negative trends, and ultimately preserve the financial health of Gallatin County. It is a 'report card' of the County's current financial condition and a reference point as staff begins work on the next year's budget.

Most importantly, the financial trend analysis assists the County Commission and the county administration in focusing on the "Big Picture" of the county's financial operations. The Finance Office continues to expand the plan by inclusion of statistical information from the 3 Chambers of Commerce, 4 Planning Office activities, 14 Zoning District activities, Yellowstone National Park tourist activities and the local airports boarding / deplaning numbers.

Capital Improvement Program

The county uses two processes for evaluating Capital Improvements. The first is a Facilities Condition Index. The second is the Capital Improvement Program. The county is in the second year of a continuing process to assess conditions of county buildings. The County uses a Facility Condition Index prepared by a 5-member professional team that adheres to a detailed conditioning index for each building. Reports show % useable and list maintenance items in order of importance.

On a yearly basis the County prepares a Capital Improvement Program (CIP) Plan. The yearly plan is developed by the CIP Committee, comprised of 7 residents, 1 elected official and 1 department head. The yearly plan includes the current fiscal year's funded projects plus the next 5 years projected projects. The entire plan is incorporated into Section H of the Annual Budget. The CIP is a multi-year capital projects plan that forecasts, but does not obligate, future spending for anticipated capital projects. The proposed six-year CIP uses conservative financial forecasts and reflects only those projects with the highest priority and most realistic expectation for completion during the next six years. This approach avoids raising expectations for projects that are not well defined or that the operating budget will not support.

As in recent years, the County continues to review numerous capital funding requests. At the same time, the county has finite resources to fund the operating costs for many of the proposed capital projects. The proposed six-year CIP attempts to continue, and even expedite, priority projects while ensuring long-term sustainability of each project by including estimated operational savings or cost increases in the plan. The County is working towards a lifecycle cost process.

The Annual Budget Process includes the approved capital projects included in the CIP for the year as well as the anticipated funding sources for the projects. If approved in the Annual Budget Process, the capital items appear in the Annual Operating Budget, which constitute the formal spending authority. The capital items included in the Annual Operating Budget represent the "Capital Budget".

A summary of the significant capital projects included in the FY 08 Operating Budget is included in the Appendix of the budget on page H-8. The current year Projects are followed by Projects for the next five years to show the total Capital Plan as recommended by the CIP Committee and adopted by the County Commission.

STAFFING CHANGES

The final budget includes a net overall increase of 5.84 full-time equivalent employees (FTE). The chart below shows the change in FTE for the budget year for each department. On the next page you will see a chart showing each departments full time equivalent (FTE) for 2003, 2004, 2005, 2006, 2007 and Final 2008. A broader listing of employees including a detailed listing of employees is located within Section J.

Staffing Changes (FTE)

DEPARTMENT/DIVISION	Net Increase (Decrease)
ADMINISTRATOR	0.42
AUDITOR	0.46
ATTORNEY	1.00
CLERK & RECORDER - ACCOUNTING	0.46
GRANTS	0.38
COURT SERVICES	(0.41)
SHERIFF (Law & Detention)	0.98
TREASURER	0.25
	-
TOTAL COUNTY TAX SUPPORTED PERSONNEL	3.12
EXTENSION AGENTS	0.50
HEALTH - CITY/COUNTY - GRANTS	2.00
SOLID WASTE SYSTEM	4.00
NOXIOUS WEED	0.90
REST HOME	1.90
OTHER CHANGES	(6.58)
TOTAL NON TAX SUPPORTED PERSONNEL	2.72
TOTAL CHANGES IN PERSONNEL	5.84

The increase for Administrator, along with a portion of the changes in Noxious Weed, Rest Home, Landfill and Other Changes fully accounts for employee changes made during FY 07 and are affecting the FY 08 for the entire year, instead of just a portion as was done in FY 07. An example of this is the Commission funding Deputy Sheriff's for a 50% of the FY 07 Budget, but needing to support the position for the 2008 Fiscal Year(100%).

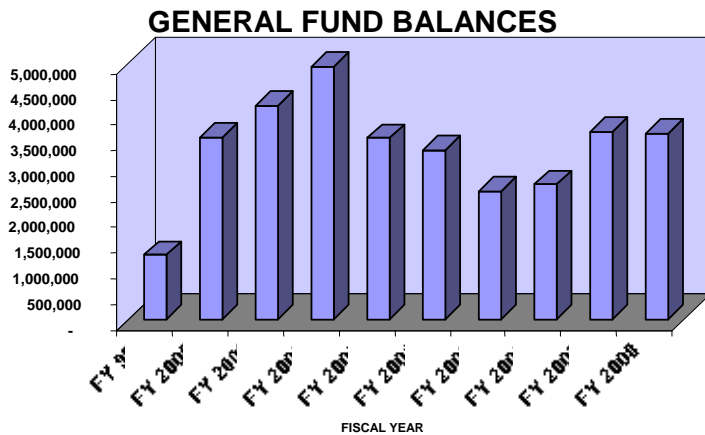
SUMMARY TABLE OF PERSONNEL (FTE)

DEPARTMENT / DIVISION	***** BUDGET *****					
	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08
COMMISSION	6.00	5.00	5.00	5.00	5.00	5.00
CLERK AND RECORDER	15.60	16.00	16.00	16.00	16.67	17.21
TREASURER	16.00	17.26	17.21	17.21	17.21	17.46
AUDITOR	3.00	3.00	3.00	2.50	2.00	2.46
ITS	7.00	7.00	7.00	7.00	7.00	7.00
ATTORNEY	10.54	13.00	16.38	16.80	17.00	18.00
JUSTICE COURT	8.50	9.50	10.00	10.75	11.00	11.00
HUMAN RESOURCES	4.00	5.00	5.00	5.00	5.75	5.75
FINANCE OFFICE	2.00	2.00	2.00	2.00	2.00	2.00
GRANT ADMINISTRATION	2.00	2.00	2.00	2.00	2.00	2.38
GEOGRAPHIC SERVICES	2.75	2.75	2.75	3.00	4.00	4.00
COMPLIANCE	-	1.00	1.00	0.90	1.09	1.10
SUPERINTENDENT OF SCHOOLS	2.00	2.00	2.00	2.25	2.00	2.00
COURT SERVICES	-	-	6.00	8.50	10.31	9.90
CLERK OF DISTRICT COURT	12.00	13.00	13.00	14.17	15.00	15.00
PLANNING	9.00	9.00	9.00	9.00	10.00	10.00
COUNTY ADMINISTRATOR	-	1.00	2.00	1.50	1.58	2.00
MISCELLANEOUS	0.27	0.27	0.27	0.25	0.25	0.25
SHERIFF	42.65	46.40	43.49	47.58	51.35	52.25
CORONER	0.65	0.65	0.65	0.65	0.65	0.65
FIRE MARSHAL	-	-	-	-	-	-
DISASTER PREPAREDNESS	-	-	-	-	-	-
HAZARDOUS MATERIAL	-	-	-	-	-	-
DETENTION CENTER	26.50	27.40	33.50	36.00	32.92	33.00
SEARCH & RESCUE	-	-	-	-	-	-
ROAD MAINTENANCE	24.85	24.85	24.85	26.60	26.11	26.11
BRIDGE	7.36	7.36	7.36	7.36	7.36	7.36
NOXIOUS WEED	1.50	2.00	2.00	2.00	2.50	3.40
FAIRGROUNDS	6.00	7.00	8.00	8.00	9.34	9.25
THREE FORKS AIRPORT	-	-	-	-	-	-
PUBLIC DEFENDERS	-	5.32	10.00	11.00	-	-
PRE TRIAL	1.00	1.00	-	-	-	-
MENTAL HEALTH	-	-	-	-	-	-
CITY/COUNTY HEALTH ADMIN.	1.69	1.69	2.00	2.00	3.00	2.00
ENVIRONMENTAL HEALTH	11.31	11.31	11.00	11.50	11.06	12.06
HUMAN SERVICES - HEALTH	6.31	6.25	7.19	6.69	6.85	7.61
HEALTH GRANTS	10.39	11.56	11.49	12.24	8.21	10.76
PUBLIC SAFETY GRANTS	3.00	3.00	3.00	3.00	6.50	6.50
SENIOR CITIZENS	-	-	-	-	-	-
EXTENSION AGENTS	3.50	3.50	3.50	3.75	4.00	4.50
REST HOME	88.15	76.21	80.50	90.30	89.80	91.70
FACILITIES	2.65	3.65	3.65	4.65	3.62	3.62
SOLID WASTE SYSTEM	1.50	1.50	8.50	10.50	12.50	16.50
JOINT DISPATCH	28.50	28.50	28.50	28.00	28.00	28.63
OTHER	9.79	14.99	10.12	11.60	14.77	5.78
TOTAL	377.96	392.92	418.91	447.25	448.35	454.19

Blue Numbers = Increase in Staffing
Purple Numbers = Decrease in Staffing

BUDGETARY TRENDS

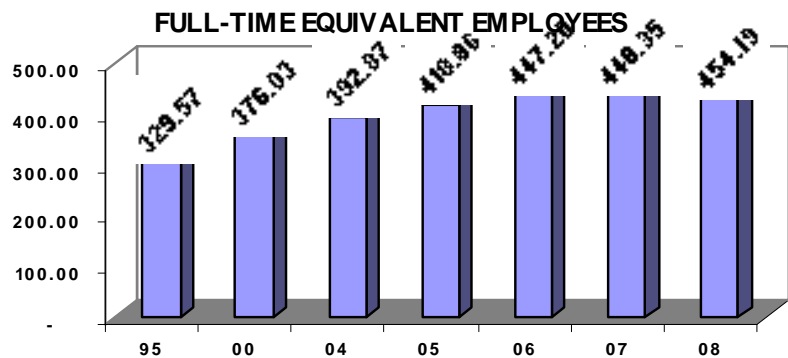
Shown below are a series of key financial indicators and budgetary trends that affect the ability of the county to sustain current service levels while maintaining financial stability.



Fund balance measures the net financial resources available to finance expenditures of future periods. Rating agencies examine fund balance when considering the credit quality of the County. The general fund balance represents the best indicator of the county's overall financial health. Shown by the graph on the left is the county's actual general fund balance over the course of the last several years. The reduction in general fund balance from fiscal year 02 to 06

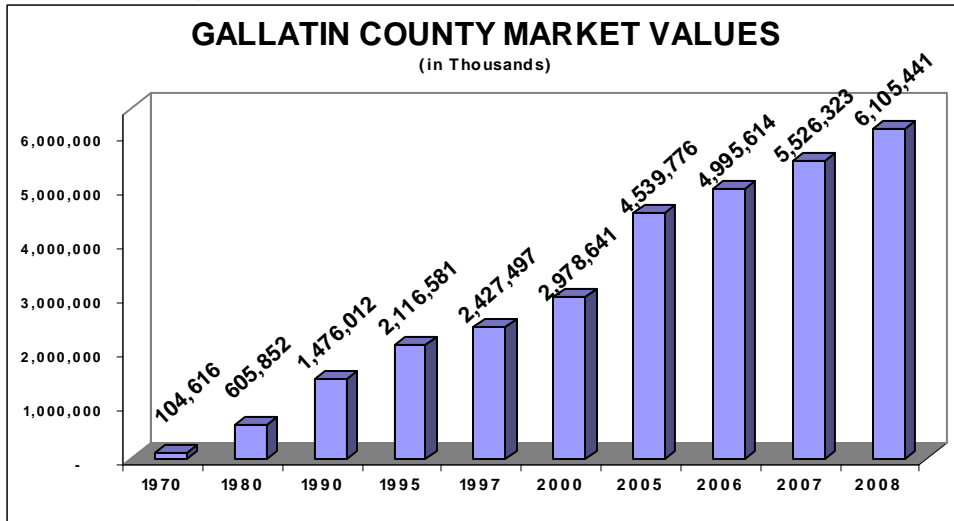
resulted from the separation of a major component of the General Fund into a separate Special Revenue Fund entitled Public Safety. When the two funds are combined the reduction is significantly reduced. Also, the County used these fund balances to pay for the upgrade to the County Courthouse during this time. The county's 2008 budget continues to be structurally balanced and the county will maintain a safe general fund reserve going into fiscal year 2009.

Full-time equivalent employees (FTE) are a key indicator mirroring the growth in Gallatin County. As shown by the graph on the right, total FTE grew from 329.57 in fiscal year 1995 to 454.19 in 2008, for a 38 percent increase over this period. One of the principal challenges continually facing the county is the on-going financial obligation of new employees necessary to meet the service demand that accompanies the rapid growth in the county. All indications are that the growth Gallatin County has experienced in the past will continue for the foreseeable future. (Woods & Poole; University of Montana – Business and Economics Department and State of Montana projections). Additional information can be seen in the Appendix (Section J of this document).



As a general rule, all real and personal property in the State of Montana is subject to taxation by the State and its counties, municipalities and other political subdivisions. This rule is subject to exceptions in the case of specified classes of exempt property. Property is classified according to its use and character, and the different classes of property are taxed at different percentages of their market valuation.

Property valuations are based on comprehensive appraisals of all taxable property performed by the

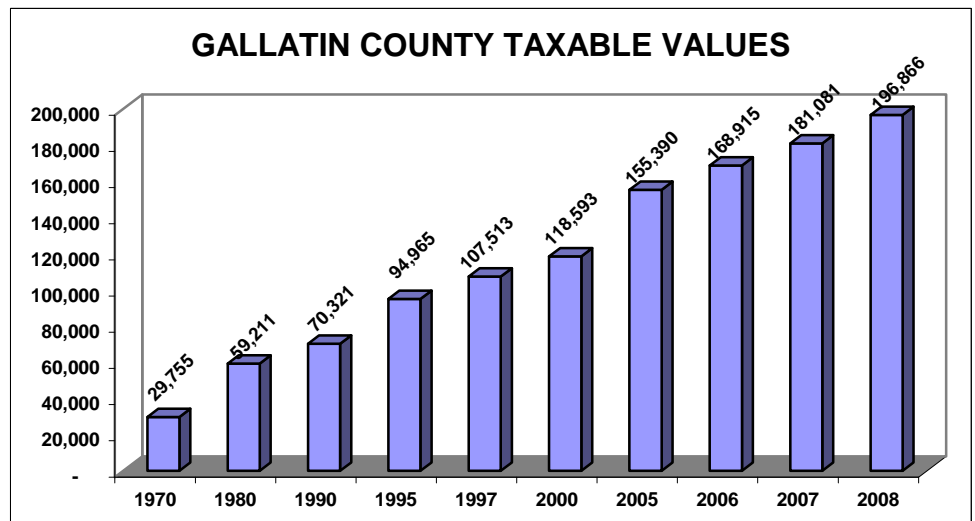


Department of Revenue on a 6-year re-appraisal cycle. The Department of Revenue certifies market and taxable values to each county on or before the 1st Monday in August. Gallatin County's market value trend is shown by the graph on the left. As reflected in the graph, the county's market value has increased from \$2.427 billion in fiscal

year 1997 to \$6.105 billion in fiscal year 2008, for a 152% increase in 11 years. The market value of property in the county reflects the rapid growth the county is experiencing.

The following graph of taxable values reflects the county's ability to raise general tax revenue necessary to support the growing demand for government services. The taxable value for property is determined by applying a statutorily established percentage ratio to the market value of the property, according to its property classification.

The applicable ratio for most commercial and residential real properties is currently 3.14%. Shown on the right is a history of the county's actual taxable value since 1970. The increase in taxable values does not coincide with the increase in market values shown earlier. The county's taxable value (per mill) has increased from \$107,513 billion in 1997 to \$196,866



2008, for an 83% increase in 11 years. The difference comes from adjustments to the percentage ratio and changes in tax policy approved by the State Legislature. Taxable values (as opposed to market values) more accurately reflect the ability of the county to generate tax revenues.

MILL LEVY DECISIONS

The County Commission approved the Final Budget with the intent to maintain taxes at the same amount of taxes for individual taxpayers as paid in the previous years, except for voter approved mill levies and changes to assessments. The Commission adopted the Final Budget with no increase in the number of mills levied in FY 08, except for the voter approved 9 mill levy for Dispatch, implementation of re-appraisal percentages and values associated with new construction. The Commission could have levied \$797,534 more in taxes in FY 08. The following table shows the taxes that were not levied:

<u>Fiscal Year</u>	<u>Description</u>	<u>Mills</u>	<u>Taxes</u>
FY 07	Operating Levies	2.716	534,836
FY 07	Rural Levies	.312	34,346
FY 08	Operating Levy	.016	3,151
FY 08	Inflationary Levy	.947	186,513
FY 08	Rural Inflationary Levy	.351	<u>38,688</u>
TOTAL TAXES NOT LEVIED			797,534

The Final Operating Budget continues the Commissions desire to not increase taxes unless necessary. The Commission reviewed Employee Health Insurance Premiums and decided not to increase FY 07 premiums.

The only increase in taxes a general taxpayer will see for Gallatin County comes from the voter approved 9 mills Dispatch Levy. The following table shows taxes the county will levy compared to the amount the commission could levy:

<u>Type of Activity</u>	<u>Amount Allowed</u>	<u>Amount Charged</u>	<u>Difference</u>
County - Wide Levies	15,187,747	14,455,682	732,065
Road/Library Levies	2,780,787	2,715,318	65,469
Permissive Medical Levy	1,082,561	1,082,561	-0-
Bond Levies	<u>900,182</u>	<u>900,182</u>	<u>-0-</u>
TOTAL	<u>19,951,277</u>	<u>19,153,743</u>	<u>797,534</u>

The Commission **DID NOT** levy 3.99 mills (\$732,065) for County-Wide Funds, which include the General, Bridge, Noxious Weed, Fair, Airport at Three Forks, Public Safety, Extension, Mental Health, City/County Health, Senior Citizens, Search & Rescue, Rest Home and Capital Projects Funds. In addition, the Commission could have levied .72 mills (\$65,469) on rural taxpayers, (taxpayers outside cities and towns), for support of the Road / Library Activities. As stated earlier the Commission did levy the maximum allowed mills for the Permissive Medical Levy. The County – Wide levies can be imposed in future years, if the County Commission determines an increase is in the best interest of the County.

The Commission does not have discretion on levies associated with 'Bond Levies'. These taxes support repayment of the Rest Home and Open Space Bonds approved by the voters. The County is required to levy taxes equal to the Principal and Interest due during the year.

The net effect of not levying the maximum taxes results in a savings to taxpayers inside a city or town with a house appraised, for taxes, at \$100,000 or \$200,000 will save about \$8.45 and \$16.90 respectively. Rural Taxpayers will keep \$10.19 and \$20.38 on the \$100,000 or \$200,000 property. However, the voted 9 mills levy costs \$19.06 and \$38.12 respectfully for the same \$100,000 or \$200,000 property

ECONOMIC FACTORS

The Bureau of Business and Economic Research (BBER) is the research and public service branch of the University of Montana's School of Business Administration. The Bureau is regularly involved in a wide variety of activities, including economic analysis and forecasting. Excerpts from the Bureau's forecasts contained in the Spring 2005 issue of the Montana Business Quarterly relating to Gallatin County are restated below.

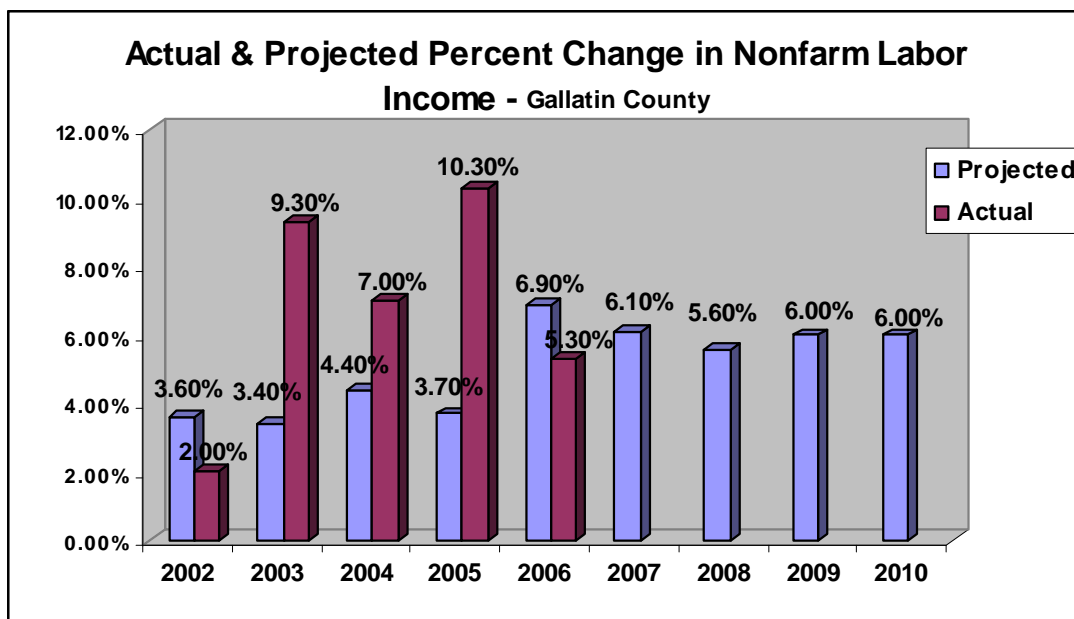
Gallatin County was one of the fastest growing counties in Montana during the last 30 years. Even during the disastrous 1980s, there were no periods of decline (although they came close in 1980 and again in 1986). Bozeman is now a second-order regional trade center; the export components of retail trade and services (including health care and business services) account for almost one-quarter of the economic base.

Population, Montana and BEA Regions, 1990-2010

	Thousands of Persons				Average Annual		
	Actual		Projected		Percent	Change	
	1990	2000	2005	2010	1990-2000	2000-2005	2005-2010
Montana	800	902	936	974	1.2%	0.7%	0.8%
West	335	400	416	445	1.8%	0.8%	1.4%
Missoula	79	95	100	106	1.9%	1.0%	1.2%
Flathead	60	75	83	90	2.3%	2.0%	1.6%
Silver Bow	34	35	33	37	3.0%	-1.2%	2.3%
Lewis & Clark	48	56	58	61	1.5%	0.7%	1.0%
Ravalli	25	36	40	43	3.7%	2.1%	1.5%
Rest of West	89	103	102	108	1.5%	-0.2%	1.1%
North-Central	181	183	184	184	0.1%	0.0%	0.1%
Cascade	78	80	82	82	0.3%	0.0%	0.5%
Hill	18	17	17	17	-0.6%	-1.2%	1.2%
Fergus	12	12	13	13	0.0%	0.0%	1.6%
Rest of North Central	73	74	72	72	0.1%	0.3%	-0.8%
Southeast	284	319	337	345	1.2%	1.1%	0.5%
Yellowstone	114	128	137	145	1.2%	1.4%	1.1%
Gallatin	51	68	78	86	2.9%	2.8%	2.0%
Richland	11	10	9	11	-0.9%	-2.1%	4.1%
Custer	12	12	11	12	0.0%	-1.7%	1.8%
Rest of Southeast	96	101	102	91	0.5%	0.2%	-2.2%

Source: Bureau of the Census, U.S. Department of Commerce: Bureau of Business and Economic Research, The University of Montana - Missoula.

The University of Montana Bureau of Business and Economic Research (U of M or BBER) labor income projections have consistently understated the actual growth in Gallatin County. BBER projects a decline in FY 05 through FY 09 from the FY 04 levels. Global Insight (the State of Montana's contracted firm) projects acceleration of growth in the County through 2005 and continued growth in the 3.5 to 4.4 percent per year range to 2008. The Bureau projects that Gallatin County will lead Montana in population growth over the next several years.



Closing

We hope the information contained in the FY 08 Final Budget is of benefit to all interested parties. We want to encourage you to look at the end of the Budget Highlights section to see what has changed in this budget from last year.

In closing we want to inform the public that our dramatic changes in the budget process implemented in FY 07 are continued in the FY 08 document. We will be actively pursuing a Performance Based Management / Budget process for FY 09. We strongly encourage each and every person using county services to inform us of their ideas, level of satisfaction and problems.

Respectfully,
Gallatin County Commission

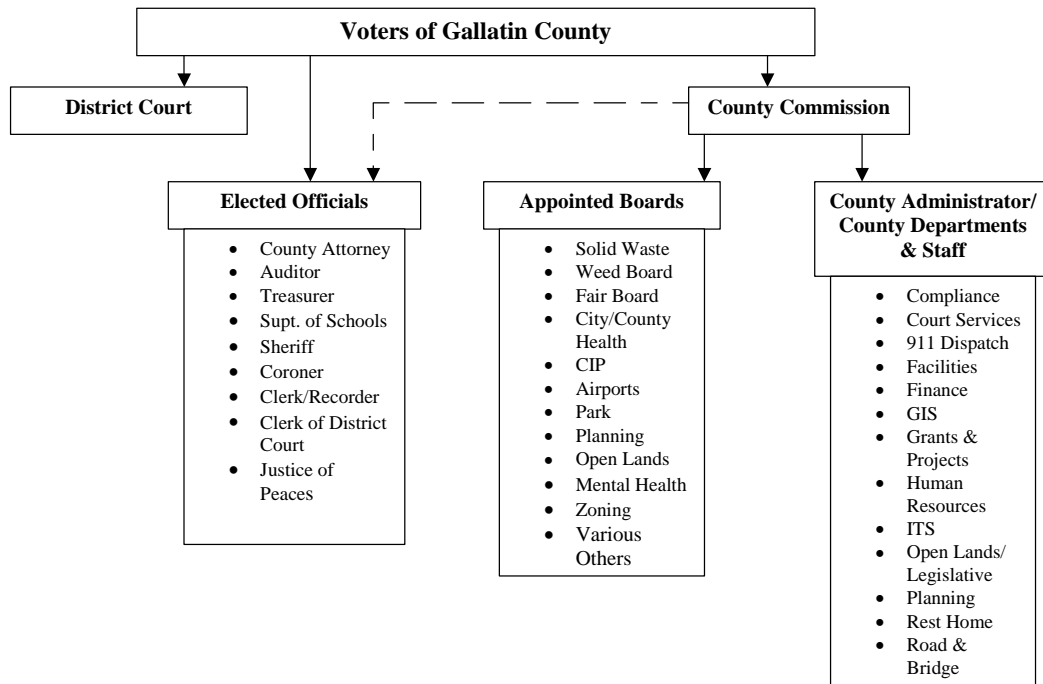
Joe P. Skinner, Chairman

William A. Murdock, Member

R. Stephen White, Member

GALLATIN COUNTY ORGANIZATIONAL CHART

Simplified Organizational Chart – Gallatin County Government



RECOMMENDED BUDGET PRACTICES

Gallatin County is incorporating the recommended practices promulgated by the National Advisory Council on State and Local Budgeting (NACSLB) in its annual budget, as time allows.

The NACSLB was created to provide tools for governments to improve their budgeting processes and to promote their use. The NACSLB focuses on long-term financial planning and encourages governments to consider the longer consequences of actions to ensure that impacts of budget decisions are understood over a multi-year planning horizon and to assess whether program and service levels can be sustained. Practices encourage the development of organizational goals, establishment of policies and plans to achieve these goals, and allocation of resources through the budget process that are consistent with goals, policies and plans. There is also a focus on measuring performance to determine what has been accomplished with scarce government resources.

Following are excerpts of the NACSLB budget practice recommendations.

BUDGET DEFINITION

The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

A good budget process is characterized by several essential features:

- Incorporates a long-term perspective
- Establishes linkages to broad goals
- Focuses budgeting decisions on results and outcomes
- Involves and promotes effective communication with stakeholders
- Provides incentives to government management and employees

These key characteristics of good budgeting make clear that the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals. A good budget process moves beyond the traditional concept of line-item expenditure control, providing incentives and flexibility to managers that can lead to improved program efficiency and effectiveness.

MISSION OF THE BUDGET PROCESS

The mission of the budget process is to help decision makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process. Communication and involvement with citizens and other stakeholders is stressed. Communication and involvement are essential components of every aspect of the budget process.

Gallatin County is committed to a balanced budget. This is consistent with state law, which requires revenues plus reallocated working capital to equal or exceed approved expenditures. Gallatin County conducts financial planning processes that assess the long-term financial implications of current and proposed operating and capital budgets. These planning processes also provide for the assessment of the condition of all major capital assets to help plan for the on-going financial commitments required to maximize the benefit of those assets to the public.

PERFORMANCE BUDGETING

Gallatin County is moving to a Performance Budgeting approach for the development of its annual operating budget. Performance budgets emphasize the accomplishment of program objectives as opposed to a description of what is going to be purchased by the government.

Performance budgeting involves a shift away from justification of line items (purchases) towards a debate regarding what is going to be provided and accomplished.

Gallatin County is in the early stages of its Performance Management / Budgeting efforts. Departments are in the process of identifying performance objectives, identifying and tracking workload indicators, and establishing quantifiable performance measures. It is anticipated that it will take 2 – 4 years to fully implement the performance management / budgeting system.

The following are the budget phases (steps) the county uses:

1) FINANCIAL TREND ANALYSIS PHASE

The budget process begins in the winter with the updating of the five-year financial trend analysis for the County as a whole.

Using the latest fiscal, operational, and legislative information, finance staff works collaboratively with county elected officials and departments to update the county's financial trend analysis.

The financial trend analysis assists the County Commission and the county administration in focusing on the "Big Picture" of the county's financial operations.

2) BASELINE BUDGET PHASE

The County Finance Office meets with the County Commission. The Commission identifies and sets budget parameters they will use in making budgetary decisions.

The Finance Office projects available working capital, anticipated revenue, and adjusted expenses for the next fiscal year, based on the Commission parameters. The Commission along with Elected Officials, Department Heads and the General public reviews these projections, modifies, amends and the Commission approves them as the Baseline Budget.

The Baseline Budget is sent to all departments for consideration at the beginning of their deliberations. Departments are required to justify all requests beyond the approved Baseline.

3) NEEDS ASSESSMENT PHASE

Departments assess programs and needs. This includes examination of departmental programs and positions for trade-offs, reductions, or elimination. During this phase, departments are encouraged to thoroughly review all programs and services, assessing their value and priority to the citizens. Departments submit requests for new or expanded programs.

From this process, departments prepare their requested departmental budgets and submit them to the Finance Office.

4) BUDGET PRIORITIZATION PHASE

The County Commission reviews department requests with a focus on needs above the Baseline Budget. The Commission reviews needs, determines tasks to be funded in conformance with the Commission's goals and objectives and directs the preparation of the preliminary budget by the Finance Office. The preliminary budget includes proposed expenditures and the means of financing them.

The purpose of the preliminary budget is to enable the community, Elected Officials, Department Heads, Agency Directors and staff and the County Commission to comment on a balanced budget well before it is adopted. The Commission deliberations on requests and the Preliminary Budget are accomplished during public meetings open to all interested persons.

5) CAPITAL IMPROVEMENTS PROGRAM (CIP) PHASE

Gallatin County has a formally adopted Capital Improvement Plan (CIP). On a yearly basis the CIP Committee (CIPC) prepares recommendations on funding of the current year and the next 5 years capital project needs. The Commission takes the CIPC's recommendation under consideration, modifies the recommendation and incorporates changes into the Preliminary Budget along with the Annual Operating Budget. Unlike the Annual Operating Budget, the CIP is a multi-year capital improvements plan that forecasts, but does not obligate, future spending for anticipated capital projects.

Whenever the County commits to a CIP plan, there is an associated long-range commitment of operating funds. For this reason, the county evaluates capital commitments in the context of their long-range operating impact. Most capital projects affect future operating budgets either positively or negatively due to an increase or decrease in maintenance costs or by providing capacity for new programs to be offered. Such impacts vary widely from project to project and, as such, are evaluated individually.

The multi-year, long-range fiscal analysis also provides an opportunity to review the operating impact of growth-related future capital projects.

6) ADOPTION/IMPLEMENTATION PHASE

Public hearings, on the Preliminary Budget, are conducted enabling citizens and other interested parties to comment on the Preliminary Budget. Following the public hearings, the County Commission may modify the Preliminary budget or may adopt it without changes.

The budget and the corresponding property tax mill levy must be adopted by the 3rd Monday in August, or within 45 days of

receipt of the Certified Taxable Valuations from the State of Montana, Department of Revenue (DOR).

Management control of the budget is maintained by monthly revenue and expenditure reports, whereby departments are able to compare actual results to the budget throughout the fiscal year. In addition, the Finance Director prepares quarterly and a more detailed mid-year budget review on individual funds and on a countywide basis, with presentations to the County Commission. These budget reviews examine revenue and expenditure patterns, and identify corrective action.

7) AMENDING THE BUDGET

Since the County Commission approves Expenditures in the categories of Personnel, Operations, Debt Service, Transfers and Capital, departments are authorized to expend within these categories without making line item budget transfers.

The county's budget may be increased or decreased during the course of the year, following public notice, a public hearing, and a majority vote of the County Commission. Department Heads present a Resolution of Intent to the County Commission. The Commission considers the Resolution of Intent. If approved, a formal public notice is forwarded to the newspaper, setting the date, time, reason, and funding source for the proposed budget amendment. At the public meeting, the Commission hears information from the public, Department Heads, and Finance Department. The County Commission considers the resolution and may approve, table, or deny the Budget Amendment.

If the Resolution is approved the Commission forwards the resolution to the Clerk & Recorder Accounting Office. The Accounting Office updates the county's computer system with all changes.

OPERATING BUDGET CALENDAR

<p>January</p> <p>Finance Office prepares estimated year end working capital (cash), estimates revenue for the coming year, and adjusts current year's budget to project next year's needs - information presented to County Commission.</p>	<p>February</p> <p>Finance Office presents approved estimated revenues, working capital and expenses for next year's budget to Elected Officials & Department Heads - Elected Officials and Department Heads review and request changes.</p> <p>The Finance Office presents the Financial Trend Analysis.</p>	<p>March</p> <p>Finance Office updates all estimates, adjusts expenses for known one time expenses and adjustments, presents updated estimates to County Commission, recommends reserve for wage adjustments, operational expense adjustment and changes to capital reserves.</p>
<p>April</p> <p>Budget meeting held - forms are presented and explanation of available funds, forms and process is made to Elected Officials and Departments Heads. Departments present needs for their departments.</p>	<p>May</p> <p>Elected Officials and Department Heads submit budgets requests.</p> <p>Commission sends request to all Elected Officials and Department Heads to review current budgets, amend requested increases and identify new revenue sources to allow for wage adjustments and funding of budget goals.</p>	<p>June</p> <p>County Commission meets on requests and develops proposed budget. Finance Office prepares preliminary budget information for elected officials and department heads. Commission reviews, amends and approves preliminary budget and sets hearing dates for Public, Elected Officials and Departments to present requested changes to the Preliminary Budget. Public Hearings scheduled.</p>
<p>July</p> <p>Commission holds public hearings on Preliminary Budget. Elected Officials and Department Heads prepare requested changes to budget. Requested changes presented at public meeting to provide information to the public as well as the County Commission. No decisions made by Commission until after final Public Hearing.</p>	<p>August</p> <p>Final Public Meeting held on budget. Commission approves Resolutions. Finance Office prepares information for Commission to send to Elected Officials and Departments. Finance Office updates Proposed Budget for final personnel changes and adjustments approved by County Commission. Final Budget Document distributed to all interested parties.</p>	<p>September</p> <p>On-going review and monitoring of current year budget.</p> <p>Preparations being made for the coming year.</p>
<p>October</p> <p>On-going review and monitoring of current year budget.</p> <p>Preparations being made for the coming year.</p>	<p>November</p> <p>On-going review and monitoring of current year budget.</p> <p>Preparations being made for the coming year.</p>	<p>December</p> <p>On-going review and monitoring of current year budget.</p> <p>Preparations being made for the coming year.</p>

The overall goal of the county's financial policy is to establish and maintain effective management of the county's financial resources. Formal policy statements and major objectives provide the foundation for achieving this goal. Accordingly, this section outlines the policies used in guiding the preparation and management of the county's overall budget and the major objectives to be accomplished.

Financial policies are guidelines for operational and strategic decision making related to financial matters. Financial policies identify acceptable and unacceptable courses of action, establish parameters in which the government can operate, and provide a standard against which the government's fiscal performance can be judged.

The following County financial policies, endorsed by the County Commission, establish the framework for Gallatin County's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured. Gallatin County's financial policies show the credit rating industry and prospective investors (bond buyers) the County's commitment to sound financial management and fiscal integrity. The financial policies also improve the County's fiscal stability by helping County officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in County bond ratings and lower cost of capital. The County is in compliance with the comprehensive financial policies in this budget.

OPERATING BUDGET POLICIES

Links to Financial Plans

- 1) Five-Year Plan.** Gallatin County's annual budget will be developed in accordance with the policies and priorities set forth in the five year strategic financial plan, Commission goals, the needs of the county, and state and federal laws. Program/project priorities and service levels will be established by the aforementioned plans.

Scope

- 1) Comprehensive Budget.** A comprehensive annual budget will be prepared for all funds expended by the county. State law (7-6-4005), states that "Local government officials may not make a disbursement or an expenditure or incur an obligation in excess of the total appropriations for a fund." Inclusion of all funds in the budget enables the commission, the administration, and the public to consider all financial aspects of county government when preparing, modifying, and monitoring the budget, rather than deal with the county's finances on a "piece meal" basis.

- 2) Competing Requests.** The budget process is intended to weigh all competing requests for County resources, within expected fiscal constraints. Requests for new or ongoing programs, made outside the budget process, are discouraged.

- 3) Understandable.** The budget will be prepared in such a manner as to facilitate its understanding by citizens and elected officials. One of the stated purposes of the budget is to present a picture of county government operations and intentions for the year to the citizens of Gallatin County. Presenting a budget document that is understandable to the citizens furthers the goal of effectively communicating local government finance issues to both elected officials and the public.

4) Budgetary Emphasis. Budgetary emphasis will focus on providing those basic government services which provide the maximum level of services to citizens in the most cost effective manner with due consideration being given to all costs--economic, fiscal, and social. Adherence to this philosophy provides citizens assurance that the County and their elected officials are responsive to the needs of citizens and that the government is operated economical and efficiently.

Budgeting Control System:

- 1) Budgetary Control.** The County exercises budgetary control (maximum spending authority) through Commission approval of appropriation authority for each program. The budgetary control system enables the Commission to monitor current year operations and acts as an early warning mechanism when departments deviate in any substantive way from the original budget.
- 2) Budget to Actual Reports.** Reports comparing actual revenues and expenditures to budgeted amounts are prepared monthly. These reports comparing actual revenues and expenditures to budget amounts provide the mechanism for the Commission and administration to regularly monitor compliance with the adopted budget.

Balanced Budget Definition and Requirement.

- 1) Balanced Budget.** The county will maintain a balanced budget. This means that:
 - Operating revenues plus re-appropriated working capital equal or exceed expenditures, including debt service.
 - Ending fund balance (or working capital in proprietary funds) must meet minimum policy levels.
 - Under this policy, it is allowable for expenditures to exceed revenues; however, beginning fund balance can only be used to fund capital projects, or other "one-time" non-recurring expenditures.

Performance Measurement Integration:

- 1) Program Objectives.** The annual budget will establish measurable program objectives and allow reasonable time to accomplish those objectives.

REVENUE POLICIES

Diversification and Stabilization:

- 1) Diversification.** The county will seek to maintain a diversified and stable revenue base to protect it from short-term fluctuations in any one-revenue source.
- 2) Aggressive Collection.** The county will pursue an aggressive policy of collecting revenues. An aggressive policy of collecting revenues helps to insure the county's revenue estimates are met; all taxpayers are treated fairly and consistently, with minimal delinquencies.
- 3) Grant Opportunities.** The county will aggressively pursue opportunities for Federal or State grant funding. An aggressive policy of pursuing Federal or State grant funding provides citizens assurance that the county is striving to obtain all state and federal funds to which it is entitled --thereby reducing dependence upon local taxpayers for the support of local public services.
- 4) Current Revenues for Current Uses.** The county will make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.
- 5) Enterprise Funds.** The county will set fees and rates at levels which fully recover the total direct and indirect costs—including operations, capital outlay, and debt service.

- 6) **Earmarking.** The County recognizes that generally accepted accounting principles for state and local governments discourage the "earmarking" of General Fund revenues, and accordingly, the practice of designating General Fund revenues for specific programs should be minimized in the County's management of its fiscal affairs.
- 7) **Realistic and Conservative.** The county will estimate revenues in a realistic and conservative manner. Aggressive revenue estimates significantly increase the chances of budgetary shortfalls occurring during the year--resulting in either deficit spending or required spending reductions. Realistic and conservative revenue estimates, on the other hand, serve to minimize the adverse impact of revenue shortfalls and also reduce the need for mid-year spending reductions.
- 8) **One-Time Revenues.** The county will give highest priority in the use of one-time revenues to the funding of capital assets or other non-recurring expenditures. Utilizing one-time revenues to fund on-going expenditures results in annual expenditure obligations that may be unfunded in future years. Using one-time revenues to fund capital assets or other non-recurring expenditures enables future administrations and commissions to cope with the financial problems when these revenue sources are discontinued, since these types of expenditures can more easily be eliminated.

User Fees.

- 1) **Cost-Effective.** User fees will be collected only if it is cost-effective and administratively feasible to do so. User fees are often costly to administer. Prior to establishing user fees, the costs to establish and administer the fees will be considered in order to provide assurance that the county's collection mechanisms are being operated in an efficient manner.

- 2) **Beneficiary Populations.** User fees and charges will be used, as opposed to general taxes, when distinct beneficiary populations or interest groups can be identified. User fees and charges are preferable to general taxes because user charges can provide clear demand signals that assist in determining what services to offer, their quantity, and their quality. User charges are also more equitable, since only those who use the service pay--thereby eliminating the subsidy provided by nonusers to users, which is inherent in general tax revenue.

- 3) **Community-Wide Versus Special Benefit.** The level of user fee cost recovery should consider the community-wide versus special service nature of the program or activity. The use of general-purpose revenues is appropriate for community-wide services, while other user fees are appropriate for services that are of special benefit to identified individuals or groups.

- 4) The following general concepts will be used in developing and implementing service charges and user fees:

- Revenues should not exceed the reasonable cost of providing the service.
- Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs and organization-wide support costs such as accounting, personnel, information technology, legal services, fleet maintenance, and insurance.
- The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
- Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service.
- A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

EXPENDITURE POLICIES

Maintenance of Capital Assets:

- 1) **Capital Assets.** The budget will provide for adequate maintenance of capital, plant, and equipment and for their orderly replacement. All governments experience prosperous times as well as periods of economic decline. In periods of economic decline, proper maintenance and replacement of capital, plant, and equipment is generally postponed or eliminated as a first means of balancing the budget. Recognition of the need for adequate maintenance and replacement of capital, plant, and equipment, regardless of the economic conditions, will assist in maintaining the County's equipment and infrastructure in good operating condition.

RESERVE POLICIES

Unreserved Fund Balance:

- 1) **General Fund.** The county will maintain an undesignated general fund reserve. The undesignated reserve will be used for: cash flow purposes, equipment acquisition and replacement, and to enable the county to meet unexpected expenditure demands or revenue shortfalls.
- 2) **Enterprise Funds.** Enterprise Fund Reserves will be maintained to meet three objectives: (1) ensure adequate funding for operations; (2) to ensure infrastructure repair and replacement; and, (3) to provide working capital to provide level rate charges to customers.
- 3) **Insurance Funds.** Self-Insurance Reserves will be maintained at a level, which, together with purchased insurance policies, will adequately indemnify the County's property, liability, and health benefit risk.

- 4) **Required Reserves.** Reserves will be established for funds not available for expenditure or are legally segregated for a specific use, in accordance with Governmental Accounting and Financial Reporting Standards (GAFR). The County's policy is to manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). This policy is consistent with GASB requirements.

Utilizing Unreserved Fund Balances:

- 1) **Spending Reserves.** On-going expenditures will be limited to levels that can be supported by current revenues. Utilization of reserves to fund on-going expenditures will produce a balanced budget, however, this practice will eventually cause severe financial problems. Once reserve levels are depleted, the county would face elimination of on-going costs in order to balance the budget. Therefore, the funding of on-going expenditures will be limited to current revenues.

CAPITAL IMPROVEMENT POLICIES

Capital Improvement Program (CIP) Formulation:

- 1) **CIP Purpose.** The purpose of the CIP is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP is a five-year plan organized into the same functional groupings used for operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the County's existing fixed assets.

- 2) **CIP Criteria.** Construction projects and capital purchases of \$50,000 or more will be included in the Capital Improvement Plan (CIP); minor capital outlays of less than \$50,000 will be included in the regular budget as capital expenditures. The CIP differentiates the financing of high cost long-lived physical improvements from low cost "consumable" equipment items contained in the operating budget. CIP items may be funded through debt financing or current revenues while operating budget items are annual or routine in nature and should only be financed from current revenues.
- 3) **Deteriorating Infrastructure.** The County Budget includes, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of infrastructure and avoidance of a significant unfunded liability.

Project Financing.

- 1) **Minor Capital Projects.** Minor capital projects or recurring capital projects, which primarily benefit current residents, will be financed from current revenues. Minor capital projects or recurring capital projects represent relatively small costs of an on-going nature, and therefore, should be financed with current revenues rather than utilizing debt financing. This policy also reflects the view that those who benefit from a capital project should pay for the project.
- 2) **Major Capital Projects.** Major capital projects, which benefit future residents, will be financed with other financing sources (e.g. debt financing). Major capital projects represent large expenditures of a non-recurring nature that primarily benefit future residents. Debt financing provides a means of generating sufficient funds to pay for the costs of major projects. Debt financing also enables the costs of the project to be supported by those who benefit from the project, since debt service payments will be funded through charges to future residents.

DEBT MANAGEMENT POLICIES

Restrictions on Debt Issuance:

- 1) **Repayment of Borrowed Funds.** The county will repay borrowed funds, used for capital projects, within a period not to exceed the expected useful life of the project. This policy reflects the view that residents benefiting from a project should pay for the project. Adherence to this policy helps prevent the county from over-extending itself with regard to the incurrence of future debt.

Limitations on Outstanding Debt:

- 1) **Reliance on Long-Term Debt.** The County will limit long-term debt to capital improvements that cannot be financed from current revenues. Incurring long-term debt serves to obligate future taxpayers. Excess reliance on long-term debt causes debt levels to reach or exceed the government's ability to pay. Therefore, conscientious use of long-term debt will provide assurance that future residents can pay debt.
- 2) **Debt Not Used for Current Operations.** The county will not use long-term debt for financing current operations. This policy reflects the view that residents benefiting from a service pay for the service. Utilization of long-term debt to support current operations would result in future residents supporting services provided in the past.

Debt Refinancing

- 1) **General Refinancing Guidelines.** Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancing will be considered (within federal tax law constraints) as follows:
 - There is a net economic benefit.
 - It is needed to modernize covenants that are adversely affecting the County's financial position or operations.
 - The County wants to reduce the principal outstanding in order to achieve future working capital.

- 2) **Standards for Economic Savings.** In general, refinancing for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.
- 3) **Net Present Value Savings.** Refinancing that produce net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt. Refinancing with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES

- 1) **GAAP.** The County will manage and account for its financial activity in accordance with Generally Accepted Accounting Principles (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). GASB is recognized as the authority with respect to governmental accounting. Managing the county's finances in accordance with GAAP and in accordance with the rules set forth by GASB, provides the citizens of Gallatin County assurance that their public funds are being accounted for in a proper manner.
- 2) **Basis of Accounting.** The county will maintain its accounting records for general governmental operations on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when services or goods are received and liabilities incurred. Accounting records for proprietary fund types and similar trust funds will be maintained on an accrual basis, with all revenues recorded when earned and expenses recorded at the time liabilities are incurred, without regard to receipt or payment of cash. Adherence to this policy will enable the county to prepare its financial statements in accordance

with Generally Accepted Accounting Principles as set forth by the Governmental Accounting Standards Board. The basis of accounting is the same for both the budget and the financial statements.

- 3) **Financial Report.** Gallatin County will prepare an Annual Financial Report (AFR) in conformity with Generally Accepted Accounting Principles (GAAP). The report will be made available to the general public.
- 4) **Audits.** An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the County's published Annual Financial Report (AFR). Audits of the county's financial records provide the public assurance that its funds are being expended in accordance with Local, State, and Federal law and in accordance with Generally Accepted Accounting Principles. Audits also provide management and the Commission with suggestions for improvement in its financial operations from independent experts in the accounting field.

FUND ACCOUNTING

Gallatin County maintains accounts in accordance with fund accounting principles to ensure that limitations and restrictions on the County's available resources are observed and adhered to. Fund accounting classifies resources into account groups with respect to the intended activities or objectives specified by those resources for accounting controls and financial reporting purposes. Each fund is an independent fiscal and accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues, and expenditures or expenses. Account groups are reporting mechanisms used to compile certain assets and liabilities of the governmental funds that are not directly recorded in those funds.

A **FUND** is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The most common reason for having a fund is to account for restricted revenue or to comply with state or federal law.

There is no limit to the number of funds that a government may establish and maintain for accounting and financial reporting. A generally practiced governmental accounting guideline is that a government should use the smallest number of individual funds as possible, consistent with its particular circumstances, and that individual funds are closed when its intended purpose no longer exists.

An **ACCOUNT** is an organizational or budgetary breakdown found within county funds. Each department serves a specific function as a distinct organizational unit of government within the given fund. Its primary purpose is organizational and budgetary accountability.

An **OBJECT OF EXPENDITURE** refers to specific, detailed expenditure classification. It relates to a specific type of item purchased or service obtained. Examples of objects of expenditure include salaries, supplies, contracted services, travel, etc.

The county's financial operations and fund structure adhere to generally accepted accounting principles. Funds are grouped under governmental funds, proprietary funds, and fiduciary fund types. The county's fund structure is comprised of the following funds, all of which are budgeted.

GOVERNMENTAL FUND TYPES

Governmental Funds are those through which most governmental functions of the county are financed. The acquisition, use, and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following are the county's governmental fund types:

General Fund — accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the County's primary operating fund.

Special Revenue Funds — account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes (other than for major capital projects). Examples include: Public Safety Fund, Road Fund, Bridge Fund, and City/County Health.

Capital Project Funds — account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.) Examples include: Open Space Acquisition, CTEP Projects, and TSEP Projects.

Debt Service Funds — account for the accumulation of resources for, and the payment of, principal and interest on general long-term debt.

PROPRIETARY FUND TYPES

Proprietary Funds are used to account for ongoing organizations or activities, which are similar to those often found in the private sector. The county uses the following proprietary funds.

Enterprise Funds — account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Examples include: Gallatin Rest Home, Logan Landfill, and West Yellowstone/Hebgen Refuse District.

Internal Service Funds — account for the financing of goods or services provided by one department to other departments of the County, or to other governmental units, on a cost-reimbursement basis. Examples include: motor pool, employee health insurance, and facilities.

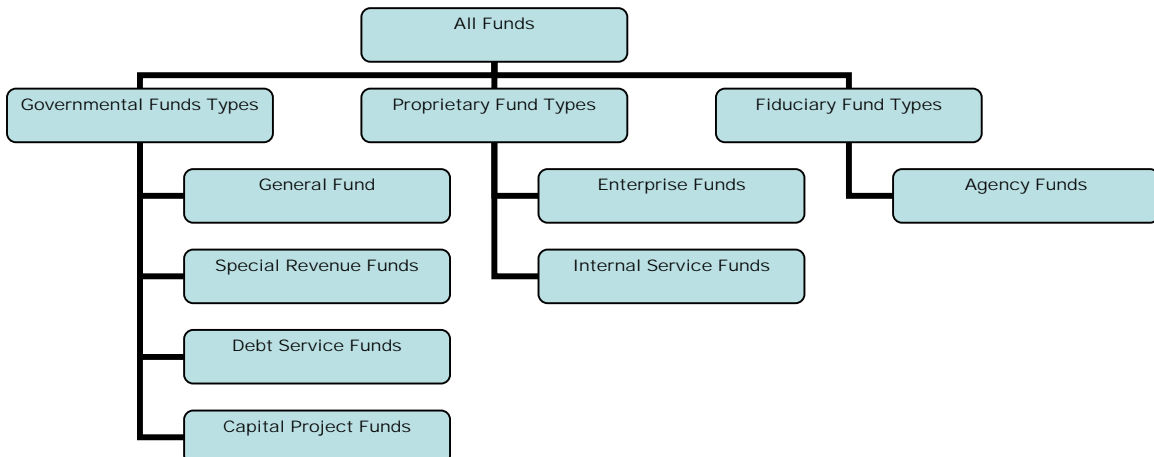
FIDUCIARY FUND TYPES

Trust and Agency Funds: Trust and agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Examples include: fire districts, fire service areas, and school districts.

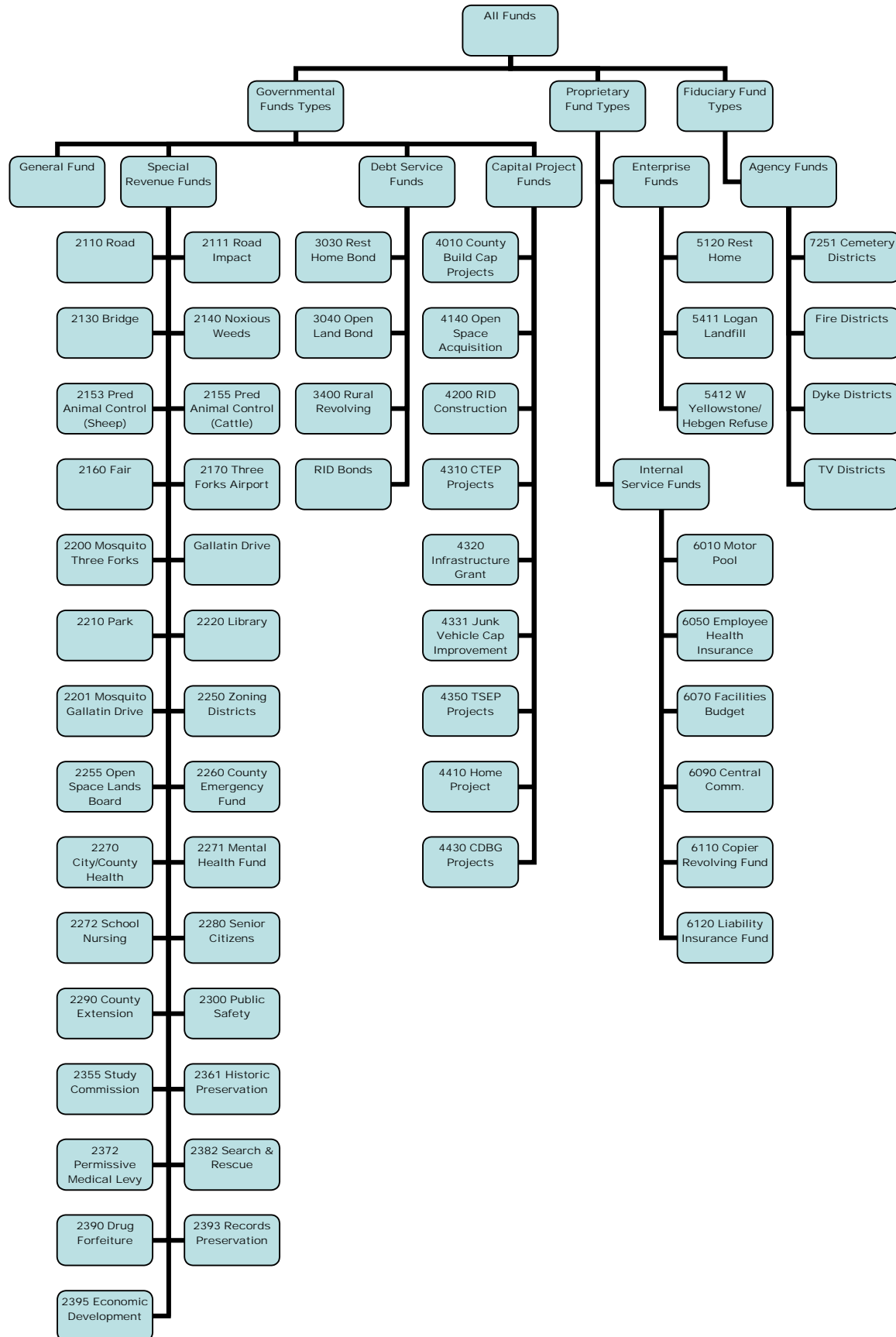
CONSISTENCY WITH AUDITED FINANCIAL STATEMENTS

Gallatin County's budgeted funds are consistent with the County's audited financial statements.

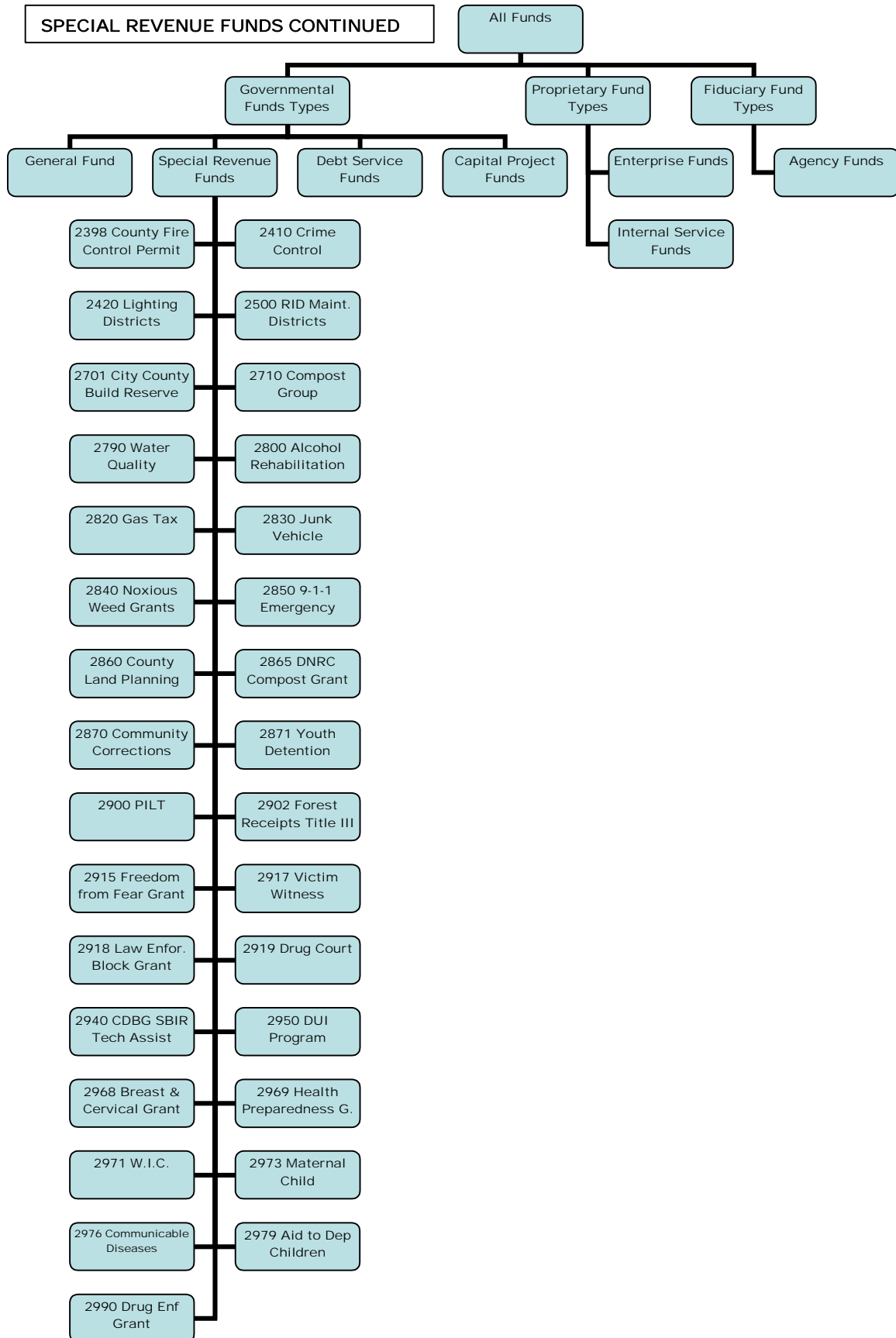
Shown below is a graphic summary of the County's fund Structure. The following two pages provide a detailed organizational graphic presentation of each of the County's funds.



FINANCIAL STRUCTURE



FINANCIAL STRUCTURE



FINANCIAL STRUCTURE

DEPARTMENTS, FUNCTION/ACTIVITIES/PROGRAMS

PURPOSE

The organizational units set forth in this section of the Budget represent the County's reporting of service delivery and allows the County to accomplish the following:

- Establish policies and goals that define the nature and level of service to be provided.
- Identify activities performed in delivering program services.
- Set objectives for improving delivery of services.
- Appropriate the resources required to perform activities and accomplish objectives.

ACCOUNT ORGANIZATION

The county's operating expenditures are organized into the following hierarchical categories:

- Fund
- Department
- Function/Activity/Division

DEPARTMENTS

Departments represent a grouping of related programs within a functional area such as Sheriff's Office within the broad functional area of Public Safety.

FUNCTION

Function represents the highest level of summarization used in the County's operating structure. Functions are a grouping of relating operations and programs that may cross organizational (departmental) boundaries. Functions are aimed at accomplishing a broad goal or delivering a major service. The five functions in the county's operating structure are:

- General Government
- Public Safety
- Public Works
- Public Health
- Recreation & Other

ACTIVITY / DIVISION

Activity /Divisions of a Department are the specific services and tasks performed in the pursuit of its objectives and goals.

Example:

Fund:	Public Safety	2300
Department:	Sheriff	209
Function:	Public Safety	42
Activity:	Law Enforcement	01
Division:	Administration	10

SUMMARY:

2300-209-42-01-10